

**United States Court of Appeals
for the Federal Circuit**

THE FOREST GROUP, INC.

Plaintiff-Appellee,

FILED
U.S. COURT OF APPEALS FOR
THE FEDERAL CIRCUIT

v.

FEB 2 2009

JAN HOEFLY
CLERK

BON TOOL COMPANY,

Defendant-Appellant,

and

CIBON INDUSTRIAL and
SHANGHAI HONEST TOOL CO., INC.,

Defendants.

APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
CASE NO. 05-CV-4127, JUDGE NANCY F. ATLAS

BRIEF OF *AMICUS CURIAE* PAUL HLETKO IN SUPPORT
OF DEFENDANT-APPELLANT BON TOOL COMPANY
URGING REVERSAL

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Dated: January 23, 2009

CERTIFICATE OF INTEREST

Counsel for Paul Hletko, *amicus curiae*, certifies the following:

1. The full name of every *amicus curiae* represented by me is Paul Hletko.

2. The name of the real party in interest represented by me is Paul Hletko.

3. Paul Hletko is an individual and thus there is no parent corporation or stock.

4. The *amicus curiae* did not appear in the trial court. The names of all law firms and the partners or associates that are expected to appear for the *amicus curiae* in this Court are: Carl S. Kravitz of Zuckerman Spaeder LLP.

Carl S. Kravitz

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STATEMENT OF INTEREST

As a patent attorney and *qui tam* relator in a case alleging that a large corporation falsely marked its products as patented in violation of 35 U.S.C. § 292, *amicus curiae* Paul Hletko has a strong interest in the correct interpretation of 35 U.S.C. § 292.

Mr. Hletko received his law degree from Loyola University of Chicago in 1996 and has been in private practice since that time. He is currently based in Evanston, Illinois, representing clients in patent prosecution and litigation. Mr. Hletko appreciates the public's interest in ensuring that only products actually covered by patents are marked as being patented. Legitimate markings enhance the patent system and provide the public with a ready means of ascertaining the intellectual property status of an article. False markings, however, undermine the system because they mislead the public into believing that the patentee "controls the article in question," thus increasing the cost of determining "whether a patentee in fact controls the intellectual property embodied in the article." *Clontech Labs., Inc. v. Invitrogen Corp.*, 406 F.3d 1347, 1356-57 (Fed. Cir. 2005). False marking provides the false marker with an undeserved monopoly, and financial advantage, in the marketplace, to the detriment of would-be competitors and consumers.

In 2008, Mr. Hletko formed Heathcote Holdings Corp., Inc. for the purpose of protecting intellectual property owners, businesses and consumers from the anti-competitive effects of falsely marking products as patented, in violation of 35 U.S.C. § 292. Later that year, through his company as a *qui tam* relator, Mr. Hletko filed *United States ex rel. Heathcote Holdings Corp., Inc. v. Church & Dwight Co., Inc.*, 2:08-cv-349, in the United States District Court for the Eastern District of Texas, alleging that the defendant in that case falsely marked certain of its products as patented in violation of 35 U.S.C. § 292. That case is still pending.¹

Mr. Hletko files this *amicus* brief to emphasize that the district court's interpretation of 35 U.S.C. § 292—and in particular, the district court's holding that a defendant's "single decision" to falsely mark a product is a single "offense" within the meaning of Section 292 that can be punished by only a single fine of not more than \$500—is contrary to the plain meaning of the statute. If the district court's interpretation were the law, it would eviscerate the deterrent, and punitive, effect of the statute. False markers could engage in their craft with impunity, knowing that their maximum fine for deciding to falsely mark a product is \$500, no matter how many articles

¹ Undersigned counsel is counsel for Mr. Hletko's company, Heathcote Holdings Corp., Inc., in the case cited above and also represents other *qui tam* relators in a handful of other false marking actions.

are falsely marked. This *amicus* brief urges this Court to afford Section 292 its plain meaning and hold that each false marking of an article constitutes a separate “offense.” Doing so would provide courts with the flexibility to impose appropriate fines designed to deter and punish false marking and protect the integrity of the patent system.

SUMMARY OF ARGUMENT

The district court erred in holding that The Forest Group's "single decision" to falsely mark certain stilts, with the intent to deceive the public, constitutes a "single offense for purposes of calculating damages under § 292" and that, as a result, The Forest Group should be assessed a fine of only \$500. [A10112]. Contrary to the district court's holding, 35 U.S.C. § 292 provides in plain, unambiguous terms that the false marking of each article constitutes a separate "offense" for which the false marker shall be fined "not more than \$500."

Beyond the plain meaning of Section 292, which mandates that each falsely marked "article" constitutes a separate "offense," the district court's decision, if sustained, would take the teeth out of the statute. A company that decides to falsely mark a mass produced "article" would, under the district court's interpretation, be subject to no more than a single \$500 fine. Such a rule would not deter or punish companies that choose to subvert the patent system by falsely portraying their products as protected intellectual property. In the process, the rule would negate the important interests that the statute was designed to protect, including the interest in a fair patent system where only those with patents legitimately covering their products can enjoy a monopoly.

Interpreting the term “offense” correctly to mean each falsely marked “article” would leave courts the flexibility to calibrate the penalty so that it is appropriate for the circumstances. Because Section 292 provides for a fine of “not more than \$500” per offense, a court would not be compelled to impose an inappropriately large fine in a case with a large number of offenses. It could simply adjust the per offense amount to reach the appropriate result. At the same time, a court would not be constrained in determining the fine by the artificial limitation on the number of offenses imposed by the district court below. Affording Section 292 its plain meaning would provide courts with the latitude to order effective, but fair, punishment and deter the type of misconduct prohibited by the statute.

ARGUMENT

A. **The Plain Language of Section 292 Provides That Each Falsely Marked Article Is an Offense**

Contrary to the district court’s interpretation, the plain meaning of Section 292 is that each falsely marked product, or “article,” is an “offense,” for which the offender shall be fined “not more than \$500.” 35 U.S.C. § 292(a). Thus, for purposes of determining the amount of the penalty under Section 292, a defendant does not commit a single offense, defined by a “single decision” to falsely mark a product line, but rather commits a

separate offense for each falsely marked product (the “article” within Section 292).

Despite the well-established rule that “[t]he starting point for [the] interpretation of a statute is always its language,” *Community for Creative Non-Violence v. Reid*, 490 U.S. 730, 739 (1989), the district court never addressed the language of Section 292. Nor did the district court endeavor to determine Section 292’s plain meaning, even though a statute’s plain meaning is ordinarily “the end of the matter,” absent something special about the statute’s structure or relationship to other statutes that would call into question this plain meaning. *Chevron U.S.A. Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837, 842 (1984).

Section 292 provides in relevant part:

Whoever marks upon, or affixes to . . . any unpatented article the word “patent” or any word or number importing that the same is patented for the purpose of deceiving the public . . . [s]hall be fined not more than \$500 for every such offense.

35 U.S.C. § 292(a). In short, the statute prohibits the false marking of “any unpatented article” and directs that a fine shall be assessed for “every such offense.” *Id.*

Focusing on the plain meaning of the provision, the word “article” refers to the thing, or item, that has been falsely marked, and it is the false

marking of the “article” that constitutes the “offense.” The word “article” is a singular noun, and thus conveys the singular nature of each offense. If the statute referred to the false marking of “articles,” then equating the false marking of hundreds of articles with a single offense, as the district court did, might be supported by the language of the statute. But Section 292 does not refer to “articles” in the plural. *See Clontech Labs., Inc.*, 406 F.3d at 1352 (noting Section 292’s reference to “an ‘unpatented article,’” and that courts therefore must determine if “an article is ‘unpatented’ for purposes of section 292”); *United States v. Mirama Enters., Inc.*, 387 F.3d 983, 987 (9th Cir. 2004) (“The ordinary meaning of ‘article’ refers to an individual member of a class (such as a unit of [defendant’s] juicer line), rather the class (or product line) itself.”).

Further, “article” is modified by the term “any,” which also makes plain that any time an “article” is falsely marked, there is a separate “offense” within the meaning of Section 292. By modifying the term “article” with “any,” the statute further emphasizes the singularity of the action constituting the offense.

Finally, Section 292 specifies that “every such offense”—namely, the false marking of “any . . . article”—shall be penalized. The statute does not say that “such offense”—namely, false marking in general—shall be

punished, which would have made the district court's decision more understandable.² The use of the word "every" discredits the notion that a unitary penalty can be imposed for numerous false markings and provides additional proof that each false marking of an "article" constitutes a separate offense.

Thus, the plain language of Section 292 provides that each false marking of a product is a separate offense. When a party falsely marks multiple items, each item constitutes a separate offense that shall be punished by a fine of not more than \$500.

Appellant's brief highlights the case law adopting this correct interpretation of Section 292, as well as the abundant case law holding that similar language in similar statutes means that each offense is subject to a separate penalty. Brief of the Appellant at 27-29. Those cases reject attempts to group similar individual offenses into one, or only a few, offenses, contrary to the statute's plain meaning. The district court in this case should have done the same.

² An earlier version of the false marking statute did penalize "such offense," and this Court should presume that Congress's addition of the modifying word "every" has meaning. *See* Brief of Appellant at 25-27. However, because nothing calls into question the plain meaning of Section 292, the statute's legislative history need not be considered.

B. Section 292 Provides the Latitude to Award a Proportionate Penalty on a Per Offense Basis

Rather than focusing on the controlling language of the statute or the apposite case law, the district court's primary concern in interpreting the statute was that huge, disproportionate penalties theoretically could result from equating each falsely marked article with an offense. [A10109-A10110]. That concern, which was also evidently behind other decisions incorrectly interpreting Section 292, is without basis because it does not account for the statute's directive to award "not more than \$500 for every such offense." 35 U.S.C. § 292(a) (emphasis added).

The fear that a draconian outcome might be mandated, if the term "offense" is interpreted correctly, is not justified under the plain terms of the statute, because a court can award less than the statute's maximum penalty of \$500 per offense. The district court did not even consider this aspect of the statute and instead opted for its unnatural reading of the term "offense." *Cf. United States v. Reader's Digest Ass'n*, 662 F.2d 955, 967 (3d Cir. 1981) ("Although our holding with respect to the number of violations does give rise to the possibility of enormous potential liability, any penalty actually imposed by a district court would be subject to the limitation of judicial discretion."). On remand, even while applying the correct interpretation of Section 292, the district court will have the ability to calibrate the penalty to

the merits of this particular case by selecting a fine of any amount between \$0 and \$500 for each falsely marked article. For example, the district court may find that the false marking allowed The Forest Group to gain an unfair advantage because it could sell its products for a substantial premium over its costs or the prices of its competitors, or that it otherwise showed contempt for the patent system by falsely marking hundreds of products, and hold that a large fine per offense is therefore appropriate.

By contrast, courts applying an earlier version of Section 292 could not control the total amount of the award by setting a lower penalty for each offense. Before Congress amended Section 292 in 1952, courts were required to impose a minimum penalty of \$100 rather than the current maximum penalty of \$500. *See* 66 Stat. 814 (amending statute). Ignoring established rules of statutory construction, some courts strayed from the statute's plain meaning to avoid total penalties that they viewed as too punitive. These result-oriented decisions reached different, and illogical, conclusions concerning the meaning of the statute. None is persuasive authority today.

London v. Everett H. Dunbar Corp., 179 F. 506 (1st Cir. 1910), a case relied on heavily by the district court, is a good example of a decision driven by the \$100 per offense minimum in the pre-1952 version of the statute.

There, the First Circuit held that imposing per article penalties could lead to the result “that the false marking of small or cheap articles in great quantities will result in the accumulation of an enormous sum of penalties, entirely out of proportion to the value of the articles.” [A10109]. To the extent that *London* ever had any validity, and we maintain it was wrongly decided in 1910 (because it ignored the plain meaning of the statute), it is no longer persuasive, because Section 292 no longer imposes a minimum fine and thus provides a court the latitude to fashion an appropriate penalty when awarded on a per offense basis.

Sadler-Cisar, Inc. v. Commercial Sales Network, Inc., 786 F. Supp. 1287, 1296 (N.D. Ohio 1991), the only other decision relied on by the district court in reaching its decision to impose a \$500 penalty, was decided after the 1952 amendment to the statute but still ignored its plain meaning. To describe *Sadler-Cisar*’s treatment of the offense issue as cursory would be generous. *Sadler-Cisar* simply stated that continuous false marking constitutes one offense, relying entirely on *London* and an even older case, *Hoyt v. Computing Scale Co.*, 96 F. 250 (S.D. Ohio 1899), which did not even decide the issue, although it was inclined to find only one offense (in a situation in which the defendant in 1899 would have faced a mandatory \$150,000 fine if a \$100 penalty were imposed for each offense). Like the

district court in this case, the court in *Sadler-Cisar* never considered the plain language of the statute, nor the fact that the older cases on which it relied were driven by pragmatic concerns that are not raised by the statute's post-1952 language.

While the district court erred in its interpretation of Section 292, it was correct to reject the time-based approach of *Icon Health & Fitness, Inc. v. The Nautilus Group, Inc.*, 2006 WL 753002 (D. Utah Mar. 23, 2006), as unsupported by the language of the statute. [A10111].

In *Icon Health & Fitness*, the court relied partly on *London*, holding that it could not find that Nautilus had committed an offense for each false advertisement because "given the breadth of Nautilus's marketing activities, such a fine would be nothing short of astronomical." *Id.* at *5. The court did not appear to understand that it could reduce the per offense fine to any level (even a fraction of a cent) so that the total fine would be an appropriate penalty. The *Icon Health & Fitness* court, however, was troubled by the fact that a \$500 fine would be no deterrent to Nautilus's egregious false marking. Thus, the court struggled to reach a just result through a tortured analysis that ended up penalizing Nautilus for each week that it ran its advertisements.

The time-based penalty has no basis in the statute's language, and the court did not explain in *Icon Health & Fitness* why it chose weeks instead of days, months, or years as the standard for assessing the penalty. Instead, the court noted that, given the systematic false marking at issue, 650 offenses (and a \$325,000 fine) was "far from unreasonable." *Id.* at *7. The irony of *Icon Health & Fitness* is that adherence to the statutory language would have given the court precisely the flexibility that it sought to impose an appropriate fine. The district court below also failed to recognize that the flexibility inherent in Section 292 would have permitted it to impose an appropriate fine without departing from the statute's plain meaning.

C. Public Policy Considerations Favor Treating Each Falsely Marked Article as a Separate Offense

Preserving the force of Section 292 serves important public interests. In *Clontech Labs., Inc.*, 406 F.3d at 1356-57, this Court observed that false marking harms the public because it:

misleads the public into believing that a patentee controls the article in question (as well as like articles), externalizes the risk of error in the determination, placing it on the public rather than the manufacturer or seller of the article, and increases the cost to the public of ascertaining whether a patentee in fact controls the intellectual property embodied in an article.

(footnote omitted). This Court noted further that Section 292 "permit[s] full and free competition in the use of ideas which are in reality a part of the

public domain.” *Id.* at 1356.

One district court recently echoed these sentiments and explained the importance of patent marking:

Patent markings are an essential component of this system. The “Patent No. XXX” imprint is, in effect, a “no trespassing” sign. Would-be inventors and consumers justifiably rely on such marks to assume that the patent holder retains control over how the article can be used, displayed, modified, or licensed. As the Supreme Court has observed, those markings “provide [the public] a ready means of discerning *the status of the intellectual property* embodied in an article of manufacture or design.” *Bonito Boats*, 489 U.S. at 162, 109 S.Ct. 971 (emphasis added).

Pequignot v. Solo Cup Co., 540 F. Supp. 2d 649, 654 (E.D. Va. 2008).

When a company falsely marks its products, it forces consumers and competitors to expend the effort and expense to determine whether the product is actually patented, or whether it is a product in the public domain. When false marking is widespread, patent markings cannot be relied upon, costs are borne by the wrong parties and the patent system as a whole is undermined.

Affording Section 292 its plain meaning, and defining “offense” as each falsely marked “article,” will further the interests of a fair patent system and Congress’s intent to foster competitive marketplaces. Under the district court’s alternative interpretation, the statute would effectively be eviscerated, because there would be no meaningful downside for false

marking. Companies might well choose to mark their products falsely, in order to obtain the benefits of public perception of a patent, all for the nominal cost of \$500 (less, in fact, than it even costs to file for a patent).³ In addition to externalizing the costs of patent investigation onto inventors and competitors, false markers unfairly benefit from consumers' belief that a "patented" product is better or more technically sophisticated than its unpatented peers. Additionally, consumers might believe that the false marker is the sole supplier or source of the product or that competing products are infringing products. If false marking becomes the norm, then the whole patent system of notice described by this Court in *Clontech Labs., Inc.*, 406 F.3d at 1356-57, will begin to crumble.

A recent rise in cases brought pursuant to Section 292 suggests that companies are not being deterred from falsely marking their products as patented and that the practice is widespread. *Amicus curiae* has, through his company as a *qui tam* relator, brought a case against a large company that has falsely marked many thousands of products. Other cases are currently pending across the country to enforce the patent laws against companies that allegedly have falsely marked their products with expired patents

³ There is no risk of companies that inadvertently mismark their products facing an indeterminate penalty based on a large number of offenses because Section 292 is only violated if the false marking was "for the purpose of deceiving the public." 35 U.S.C. § 292(a).

(sometimes long expired) or with patents which do not cover the marked products. See, e.g., *Pequignot v. Solo Cup Co.*, 1:07-cv-897, in the United States District Court for the Eastern District of Virginia; *The North Carolina Farmers' Assistance Fund, Inc. v. Monsanto Co.*, 1:08-cv-409, in the Middle District of North Carolina; *Mohawk Industries, Inc. v. Interface, Inc.*, 4:07-cv-212, in the Northern District of Georgia; *Brule Research Associates Team LLC v. A.O. Smith Corp.*, 2:08-cv-01116, in the Eastern District of Wisconsin. Section 292's interpretation will affect these actions, and other potential actions.

If the district court's incorrect interpretation is sustained, then companies will believe that they risk no more than \$500 for falsely marking an entire line of products as patented and they will not be deterred from false marking. Section 292 will be rendered meaningless as a result, undermining the patent system and fair competition in the marketplace.

CONCLUSION

For the foregoing reasons, *amicus curiae* Paul Hletko respectfully requests that this Court vacate the district court's decision with respect to the interpretation of the number of offenses under 35 U.S.C. § 292 because it is in error as a matter of law, and that this Court remand for further proceedings, applying the correct interpretation of 35 U.S.C. § 292—

namely, that each marking of an article in violation of the statute is an
“offense” punishable by a fine not more than \$500.

Dated: January 23, 2009

Respectfully submitted,

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CERTIFICATE OF COMPLIANCE

This brief complies with the type-volume limitation of Fed. R. App. P. 32(a)(7)(B)(ii) because it contains 3533 words, excluding parts of the brief exempted by Fed. R. App. P. 32(a)(7)(B)(iii).

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CERTIFICATE OF SERVICE

I hereby certify that I caused two copies of the foregoing Brief of *Amicus Curiae* Paul Hletko in Support of Defendant Bon Tool Company Urging Reversal to be served upon the below-listed counsel by Federal Express, on this 23rd day of January, 2009.

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